Kangaroo Group 23 May 2007

Statement by Dr. Hans-Dieter Petram:
"A Single Market for Postal Services"

Ladies and Gentlemen,

I would like to begin by thanking the Kangaroo Group for organizing this lunch debate and for giving me the opportunity to outline to you Deutsche Post's position on market liberalization and competition in the postal sector.

First, we believe in competition. We are already active in highly competitive postal markets.

Second, we are the universal service provider in Germany and we will continue providing universal service after full market opening as before.

Third, we support socially acceptable employment and working conditions because our labour-intensive sector relies on qualified and motivated employees.

- **Competition will be important for the viability of the postal industry.**

We have been debating the liberalization of postal markets in Europe for a long time now. In fact, in 2009 more than 15 years of gradual and controlled market opening will have passed. Therefore one can hardly say 2009 would be premature. A generously long transitional period has been given to Member States and public posts for moving forward to the Internal Market and to prepare for competition.

I believe it's worth remembering that the creation of the Internal Market for postal services has been the shared objective of Community postal policy since its beginnings. It's worth remembering, because listening to the discussions taking place during these days, you may sometimes get the impression that the objective as such was being challenged.

The creation of the Internal Market for postal services has been the objective for good reasons. In its 2006 resolution on the Application of the Postal Directive, the European Parliament confirmed the benefits of competition noting that

"*competitive and efficient postal services are of great significance for economic and social activity in the EU*" and that postal reforms "*so far have brought about significant positive developments in the postal sector, along with increased quality, more efficiency and better customer orientation*".

I fully support that.

Deutsche Post has always supported the efforts undertaken by the European Institutions to move to a fully open and competitive market for postal services. And we have done our homework to be prepared for competition.

Before 1990, postal services in Germany were characterized by low quality, low customer orientation, low degree of automation, high costs and old buildings. In the 90s we radically restructured and modernized the company, leading to dramatic cost reductions and great improvements in quality. Within 15 years Deutsche Post developed from a state administration into a successful, globally active company listed on the stock exchange.

Being prepared for competition is not only important for facing the challenges of a fully opened market. It is also an important basis for the increasing competition with alternative communication media. The trend of postal markets converging with communication, transport and logistics markets has continued. Mail services face increasing competition with electronic communication media. This applies to both, individual letter communication which is competing with e-mail, and the direct mail market, which has to assert itself over the electronic media on a daily basis. Mail will manage to compete successfully only if services are efficient, innovative and responsive to customers needs: requirements that will be best promoted in a market open to competition.

- **So, first, Deutsche Post fully supports market opening in 2009. Second, we support the continued provision of the universal service.**

We are convinced that the universal service can be guaranteed in a fully competitive market environment. Postal services are vital for the economy and society in providing communications and delivery or distribution services. They are important infrastructure services and are rightly recognised as services of general economic interest.

Competition will have an effect on universal service – but not in the way that is usually suggested. The market will deliver most of the universal service formerly guaranteed by regulation in a monopoly environment. In fact, for the 85 % of standard mail from business customers, we can assume market forces will perfectly replace universal service regulation, and will most probably do a better job. Competition will motivate a better alignment of price, cost and value and ensure a sound commercial provision of postal services which best meet customers' expectations and requirements. The core of the universal service is therefore to ensure the provision of high quality services to residential and smaller business users everywhere, and at affordable prices. Basically, universal service is about consumer protection, or is about regular stamped mail.

Therefore, I have much sympathy with Markus Ferber's idea to adapt regulations and to develop universal service into an instrument of consumer protection.

To avoid any misunderstanding: Neither a redefinition in terms of consumer protection, nor downgrading in whatever way, are prerequisites for full market opening. No.

Universal service can be maintained as it is defined today in the member states. This is because we have reliable mechanisms available to finance universal service if needed. I emphasise: if needed; because if we look at Sweden, we find that universal service has been provided without any subsidies for more than 10 years now.

I am quite aware that some interest groups claim "uncertainty" when it comes to financing universal service after the removal of a reserved area. A closer look however tells us that public funding or sharing net costs, measures proposed by the Commission for funding universal service, are in fact nothing new. They have not been recently invented. They are certainly not unknown.

Far from it. They have been successfully employed in postal or electronic communications and elsewhere. For instance in the UK, post offices in rural areas are supported by public money. And in France, universal service in telecommunications and in energy are financed by a sharing mechanism.

Personally, I believe public funds are the preferable solution as long as funding is done in a transparent, objective and non-discriminatory way. This is because the principle: "who orders, pays" ensures a healthy discipline. On the other hand, public funding may not be considered as an acceptable solution by every Member State, in view of limited availability of public resources or budgetary restrictions.

The alternative then is industry-based funding by sharing net costs. Net costs are distributed proportionally among the service providers active in the relevant market. The advantage of a fund, in comparison with a monopoly, is that the funding base is much wider in potentially covering the total market. The larger the market share of competitors becomes, the larger the burden for financing of the universal service they are called upon to shoulder. The universal service provider is relieved in equal measure.

Therefore, there is no justification for delaying full market opening on grounds of financing universal service.

- **I would like to move to my third point: employment.**

In view of the comparatively high labor intensity of the postal sector, the aim to provide long-term job security is rightfully of paramount importance in the current political discussion on market opening.

However, there are trends or developments totally independent of market opening that have an impact on employment: electronic substitution, for instance.

The drop in the demand for postal services as a result of electronic substitution is already a fact that companies like ours cannot ignore. Postal services have long since become a part of a wider communications market. Electronic substitution is estimated to be 3% per year. This forces companies to face the challenges of the market. A large number of postal companies have therefore started to get fit for the future through restructuring, automation, process and product innovations.

Another fact is the loss of market shares due to competition even in countries which have not yet fully opened their market. Losses in market shares due to competition are a consequence of the political decision to open the market.

Deutsche Post, for example, has lost around 10% of its market share to its competitors in Germany. Closely connected with the loss of shipment volumes and of corresponding revenue at the incumbent is the loss of jobs.

On the other hand, there are market share increases and growing employment among new competitors and in new business areas.

In order to ensure healthy competition, what will be important is to flank market opening with arrangements or measures that prevent competition turning into one for the lowest wages or for the worst working conditions.

Switzerland can be used as an example here: The regulatory authority in this country has to ensure that competitors also offer the working conditions that are customary in the industry. In other countries, the working conditions of the competitors have been adjusted to those of the universal service provider by collective working agreements, as is the case in Sweden, for instance. The German Postal Act also contains regulations which stipulate that the granting of a license must be refused if basic working conditions do not meet certain standards. Nonetheless, what is clearly shown by this example is the fact that creating regulations alone is not the answer. They must also be applied and enforced.

We therefore welcome that Markus Ferber has added a clause to his draft report on the third Postal Service Directive which relies on the member states and their responsibility to maintain good employment conditions in the postal sector. And we would welcome it if the Parliament and the Council agreed to that.

Ladies and Gentlemen, let me conclude:

First, it is high time to complete the Internal Market for postal services putting into action what was agreed upon as a policy objective 15 years ago. Further delay will be harmful to the postal industry.

Second, the universal postal service will continue to be provided. There are reliable instruments available to ensure the financing of universal service in a fully competitive market.

Third, full market opening contributes to sustainable employment provided there are also measures preventing wage and social dumping.

Ladies and Gentlemen,

In Germany the market will be fully open to competition on 1 January 2008. That’s fine. We are happy to move ahead of Europe. What we are asking for today is a level playing field. And I feel 2009 is more than fair and reasonable. I very much count on the Members of the European Parliament to give their support to the completion of the Internal Market for postal services.